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New Iowa farm custom rate survey available

William Edwards

Iowa State University, wedwards@iastate.edu

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Value-added business success factors -- organizational issues, continued from page 4

including outside board members (board members from industry who may not be owners) is often desirable.

It is also important to conduct training for board members. This includes not only training for new board members but on-going board training programs as well. Just like the business itself, the board must make an investment in the form of on-going board training to maintain its industry competitiveness.

Board size and the meeting schedule should be manageable. Even an experienced and well-trained board of directors can encounter problems if the board size or meeting agenda is unmanageable. Two of the organizations we interviewed had boards of directors with more than 20 members. They suggested that their boards were too large. The desire for equitable representation of the business's farmer-investors often leads to large board size. However, this desire should not be allowed to jeopardize the board's ability to effectively lead the company.

Professional team -- When making important business decisions, access to business, legal, financial, and industry expertise is critical. Early in the process, founding members should seek professional expertise. While retaining professional services can be costly for a start-up with little or no working capital, the importance of professional council cannot be over-emphasized. For some businesses, state assistance was available and pivotal in financing feasibility studies and business plans. Another business reported that their attorneys worked on a contingency basis during the early days of the organization. State and local economic development programs may be a good place to find access to, or funding for, professional services.

(next article – the role of management and operations)

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New Iowa farm custom rate survey available

by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

For many years Iowa State University Extension has surveyed farmers, custom operators and farm managers to gather information about current rates for performing machinery operations and services. The purpose is to provide benchmark information that can be used for negotiating a fair and competitive charge for individual situations. The first survey, done in 1974, listed 38 different field operations. The most recent survey covered a total of 134 machinery operations, rental rates and miscellaneous services!

Rates reflect all costs

Custom farming rates assume that the operator provides the machine, fuel and labor. Thus, custom rates should reflect the costs of depreciation, interest on investment, insurance, housing, repairs and maintenance, fuel, lubricants, repairs, labor and a profit margin. However, some operators who do a small amount of custom work in addition to farming their own land may be satisfied just to cover their variable costs, this is, fuel, repairs and labor. In the long run, though, machinery must be replaced and a return on investment earned.

The values reported on the survey are simply the average of all the responses received for each category. The range of the highest and lowest responses received is also reported. These values are intended only as a guide. There are many reasons why the rate charged in a particular situation should be above or below the average. These include the timeliness

with which operations are performed, quality and special features of the machine, operator skill, size and shape of fields, number of acres contracted, and the condition of the crop for harvesting. The availability of custom operators in a given area will also affect rates.

Methodology

Efforts are made to survey a balance of both custom operators and farmers, managers and landowners who hire custom work done. This year 581 surveys were mailed out, and 185 were returned. Of the people who responded, 34 percent indicated that they performed custom work, 17 percent indicated that they hired work done, and 49 percent indicated that they did both. Those who performed custom work reported slightly higher rates than those who hired it done, generally around 5 to 10 percent higher. Anyone who would like to be included in future custom rate surveys should contact William Edwards at wedwards@iastate.edu.

Several new operations were included in the 2008 survey. Complete harvesting includes combining the crop as well as supplying a grain cart and truck or wagon, plus drivers, to deliver grain to farm storage. Also included this year was combining corn with a stalk chopper head, baling large square straw or stalk bales, and managing grain stored in on-farm bins.

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New Iowa farm custom rate survey available, continued from page 5

Machinery rental

Sometimes machinery owners rent pieces of equipment to another operator, who provides the fuel and labor to operate it. In the case of a pulled implement, the renter often provides the tractor, as well. The Iowa Farm Custom Rate Survey shows average rental rates for about 20 commonly rented machines. For machines not included in the survey, a short worksheet is provided that starts with a custom rate and subtracts the cost of fuel, labor and a tractor in order to estimate a rental rate.

Trends

The table on this page compares average rates reported for a few common operations over the past three decades. All rates have increased, due to increases in machinery prices, fuel prices, repair costs and labor. Some operations, such as planting, have roughly tripled, and probably reflect improvements in technology as well as cost increases. Combining has not increased as rapidly as other operations, despite improved harvesting technology. One possible explanation is that custom operators have been able to operate more hours per day with wider heads and at higher speeds, thus allowing more acres to be covered with each combine in a season. Having grain carts and larger trucks available has also improved harvesting efficiency.

Complete custom farming rates include tillage, planting, pest control and harvesting. These rates have not increased as fast as rates for individual operations, possibly because the number of operations performed has decreased over time. Many custom operators charge for each operation completed rather than a flat rate for the crop. See *Information File A3-12, Historic Iowa Farm Custom Rate Survey* for more information on trends in average rates.

Adjusting rates for volatile fuel prices has been a problem in recent years. In this year's survey it was suggested that respondents assume that diesel fuel would cost an average of \$2.75 per gallon delivered to the farm in 2008. However, prices have increased since then. One convenient way to adjust custom rates is to use *ISU Extension publication Pm-709, "Fuel Required for Field Operations,"* which contains estimated fuel consumption values per acre for many common operations. This publication is also available on the Ag Decision Maker web site as information file A3-27. Multiplying the fuel used per acre by the change in the price of fuel since the survey was conducted can provide an estimate of the most recent cost increases per acre.

The 2008 Iowa Farm Custom Rate Survey is available at county Extension offices or on-line as publication FM-1698, from the ISU Publications Store, or as information file A3-10 on the Ag Decision Maker web site (www.extension.iastate.edu/agdm/crops/html/a3-10.html).

Average Farm Custom Rates Reported for Iowa

Operation	1978	1988	1998	2008
Chisel plowing, per acre	\$6.00	\$8.40	\$9.65	\$13.70
Planting, per acre	\$4.40	\$6.80	\$8.85	\$13.20
Spraying, per acre	\$2.40	\$3.50	\$4.00	\$5.60
Combining corn, per acre	\$16.20	\$22.00	\$23.40	\$28.10
Combining soybeans, per acre	\$14.00	\$20.60	\$22.55	\$27.10
Baling square bales, per bale	\$.21	\$.29	\$.36	\$.48
Custom farming, corn, per acre	\$58.00	\$71.00	\$75.80	\$94.10
Custom farming, soybeans, per acre	\$50.00	\$65.00	\$70.65	\$83.00
Machinery operating wage, per hour	\$3.50	\$5.10	\$7.20	\$11.70

Source: Iowa State University, Iowa Farm Custom Rate Surveys, FM-1698.

Updates, continued from page 1

Tools

The following profitability tools have been updated on www.extension.iastate.edu/agdm to reflect current price data.

Corn Profitability – A1-85

Soybean Profitability – A1-86

Ethanol Profitability – D1-10

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